**Opening Statement of Congresswoman Marcy Kaptur**

**Hearing of Financial Services Subcommittee on Housing and Community Opportunity**

**Foreclosure Problems and Solutions: Federal, State, and Local Efforts to Address the Foreclosure Crisis in Ohio**

**June 16, 2008**

Thank you Chairwoman Waters, distinguished members of the Financial Services Committee, and the Housing and Community Opportunity Subcommittee, particularly Ohio Congresswoman Pryce, Congressman LaTourette, Congressman Wilson, and guests.

On behalf of our entire Ohio delegation, thank you for accepting our invitation to come to Ohio to conduct one of the most important hearings your Committee has held outside Washington, DC.

Cleveland is Ground Zero of the mortgage foreclosure challenge facing Ohio. Although every quadrant of our state is suffering from rising foreclosures, the crisis is most acute here in Cuyahoga County. Nearly 15,000 new foreclosure filings occurred here in 2007--a 350% increase over 1995.

Our state provides a compelling and representative picture of what is occurring across our nation--the largest washout of private savings in the form of home equity in a half century. According to a report by Pew Charitable Trusts, homeowners nationwide are expected to lose nearly $356 billion on property values over the next two years, and roughly $1 trillion overall.

According to Moody's Economy report, "Almost 9 million homeowners now owe more on their mortgage than their home is worth, the largest share since the Great Depression." Furthermore, Moody estimates that 25% of homeowners with a mortgage will be "upside down" in their homes by this time next year--that's 12 million homeowners who will owe more than their homes are worth. In fact, for the first time since World War II, in the critical home mortgage sector--our largest form of individual private savings--net home equity is now below 50%. That is to say, while more Americans own homes, they own less of their homes.

This enormous loss of real wealth affects not just the homeowner but our nation as a whole. For the first-time-ever, securitization of these mortgages into the international capital markets both fueled and masked this risky process. The effect has been to make our nation and its banks more dependent than ever on foreign borrowing and infusions of foreign capital. America now is a net debtor nation--both publicly and privately. There have been inferences of a taxpayer bailout to prevent financial collapse of major Wall Street banks and brokerages--among them, Citigroup and Bear Stearns. Others like Merrill Lynch and Lehman are awaiting life support in the wings. Our economic future has been bound to foreign capital inflows in a manner I view as: (1) destabilizing to our nation's financial integrity, (2) politically risky for a nation founded with the ideal of independence, (3) expensive, and (4) unsustainable.

Most often when a homeowner can't make ends meet, they lose their home. But, when a giant firm like Bear Stearns can't make ends meet due to this crisis, the Chairman of the Federal Reserve and Secretary of the US Treasury get involved. Billions of dollars of capital-- now foreign capital from places like Abu Dhabi-- are found to fill the gap, mergers of banks are approved expeditiously, and, just in case, the Fed opens its NY window--with our taxpayers becoming the insurance company of last resort, pledging the full faith and credit of the U.S., not just to the Big Banks, but to brokerages for the first time. Will ordinary homeowners in our nation ever be afforded equal attention by the Fed and Treasury? It does not appear so with the rate of foreclosures and bankruptcies rising every month.

Today, we will learn more about the efforts of the State of Ohio, counties, and localities attempting to mitigate some of the damage in this maelstrom and to prevent further foreclosures and bankruptcies. Thank you for all those trying so hard to assist our fellow citizens.

Congress also must get tougher in its investigations of what has brought America to this predicament. There is much Congress does not know about what got us here. I am reminded of an adage from an old professor of mine at the Harvard Business School who advised: "if you want to know how the world operates, follow the cash."

Yet Congress has not really followed the cash. It has not investigated the paper trails of firms, brokerages, regulatory boards, government bodies, and key individuals who initiated and carried out these risky subprime practices. An equity washout of this magnitude does not happen by spontaneous combustion. It was willed to happen. Specific people in specific places set the pieces in place to allow it to proceed. Many have been handsomely rewarded. America needs to know who they were, and are. I believe it incumbent that Congress authorize a full independent investigation of the roots of this crisis that trace back to the unstable period following the savings and loan crisis in the late 1980's. The development of the internationalized mortgage security instrument itself deserves more attention. In effect, it became a clever and high risk credit device, with little transparency, that acted like a bank --it created money, or at least the illusion of it, in a Ponzi-scheme like manner. And it did so without the normal regulatory restraints of full accounting and proper examination. How could the regulators have let that happen?

America should know the individuals and organizations that allowed these risky instruments and practices to proceed and expand. One of the first institutions to embark on subprime lending was Superior Bank of Hinsdale, Illinois, ultimately bought by Charter Bank here in Ohio. Superior was created out of the Resolution Trust Corporation. By the late 1990's, Superior's return on assets was 7-1/2 times the industry average. It held a very risky portfolio, had a CAMEL rating of only 2, yet its executives were financially rewarded for presiding over ruin. How could America let this happen? No federal regulator stepped in to properly examine the institution. Why?

Where was the Office of Thrift Supervision? What had happened to HUD's appraisal and underwriting standards? Assuming many of these loans were moved to market through Freddie Mac and Fannie Mae, why did their regulatory standards and HUD's oversight fall short? How were their Boards and Executives compensated during those years when risky practices proliferated? Which Board Members at financial institutions and brokerages, regulators, and secondary market bodies voted to allow these risky and predatory policies that escalated this equity drawdown? Do we have evidence that any of those Board Members personally benefited from their Board decisions? Through which domestic and international institutions were the original securitizations first moved? Which persons did it? Which regulatory agencies sanctioned the process? What roles did the US Secretary of Treasury, the Securities and Exchange Commission, and the Federal Reserve play in allowing these practices to flourish?

I find it troubling, for instance, that even when it became known that firms like Countrywide had done great damage to the mortgage market, the Federal Reserve maintained them as one of its handful of favored primary Treasury security dealers. Why? Indeed, who and in which firm, created the very first subprime loan and rolled it into an international mortgage securitization instrument? What set of individuals were involved in moving it to market? Frankly, Congress doesn't know. Even as homeowners across our nation often find it impossible to locate the holder of their mortgage security in order to do loan workouts, those who placed them in this predicament are rolling over their stock options and collecting their interest on investments earned at others’ expense. Where are the audit trails for thousands of these subprime loan transactions and international securitizations? Congress doesn't know. The excuse "we just can't follow the paper trail" is not believable as financial transactions all have a paper trail. Even credit card companies can bill you for a phone call you made from a pay phone in a foreign country and account for the exchange rate.

In 2001, the Federal Deposit Insurance Corporation placed the largest fine in American history --$450 million-- on Superior Bank, just one of the initiators of subprime loan instruments I have been able to identify. Its faulty accounting practices and poor performance in examinations was finally recognized when it couldn't meet capital calls. Though we know Merrill Lynch was involved in moving Superior's paper, we yet do not know which third parties were involved in packaging it, their fees, etc. America should know the full story.

I am eager to learn from the witnesses today what more Congress can do to help remedy the current crisis as well as trace its roots to avoid further raids on the private savings of America's homeowners.